# VETERANS BENEFITS ADMINISTRATION

#### **Mission**

he mission of the Veterans Benefits
Administration (VBA), in partnership
with the Veterans Health
Administration and the National
Cemetery System, is to provide benefits and
services to veterans and their families in a
responsive, timely, and compassionate manner
in recognition of their service to the nation.

#### Vision

VBA will earn the respect and trust of veterans, employees, and the public by becoming an organization which:

- is easily accessible by veteran customers for all VA benefits and services;
- rapidly, accurately processes requests for benefits;
- provides clear, understandable, timely, and informative communications;
- serves as a good steward of the resources entrusted for our use; and
- provides employees with training opportunities and job satisfaction.

#### **Core Values**

- Veterans have earned our respect and are our reason for being, our common purpose. All our efforts are directed toward meeting their needs.
- We are committed to communicating to our veterans and employees in a timely, thorough, accurate, understandable, and respectful manner.
- We listen to the concerns and views of veterans and our employees to bring about improvements in benefits and services, and the climate in which they are provided.

- We value understandable business processes which consistently produce positive results.
- We foster an environment that promotes personal and corporate initiative, risk-taking, and teamwork.
- We are open to change and flexible in our attitudes.
- Respect, integrity, trust, and fairness are hallmarks of all our interactions.
- We value a culture where everyone is involved, accountable, respected, and appreciated.
- We will perform at the highest level of competence, always, and take pride in accomplishment. We are a "can do" organization.

#### Goals

- Improve responsiveness to customer needs and expectations. VBA will establish and apply performance standards that reflect customer needs and expectations.
   Customer information will be routinely collected to verify the validity of the measures and appropriate adjustments will be made.
  - Improve service delivery and benefit claims processing. Reengineering will be utilized to create a more cross-functional, horizontally-structured organization.

    Claims processing will be streamlined to eliminate non value-added activities and reduce rules and regulations. Empowered employees will have increased decision-making authority and be held accountable for process outcomes. These organization-

al changes, along with the application of new management tools and technology, will allow VBA to improve the timeliness of claims processing and the overall quality of service delivery.

- Ensure best value for the available taxpay ers' dollar. VBA will strive for the efficient and prudent use of government resources while working to achieve the full breadth of its stated goals.
- Ensure a satisfying and rewarding work environment. The work environment will be characterized by positive leadership and an empowered workforce. Training will be provided at all levels to meet technical, developmental and leadership needs. An effective rewards and recognition system will be developed that is directly linked to performance measures and organizational goals.

#### **Core Measures**

Core performance measures were developed to provide a common view within VBA of the measurement of success across program, area, and staff functions. These measures support the results-focused goals of the strategic plan. Each VBA business, area, regional office, and support plan will include a measure from each of the five categories. No one measure should have more emphasis than any other. A balance of all core measures is more important than determining our success or failure in each category separately—a balanced scorecard.

- Customer Satisfaction—This measure will compare valid customer expectations with actual service delivered. Customer satisfaction should be routinely measured at all levels of the organization (regional office, area, and national). Customer satisfaction measures will be compared with other government agencies and the best of the private sector.
- *Timeliness*—The timelines measure is not new to VBA. Traditional timeliness mea-

- sures will change to focus on timeliness as seen from the customer's point of view. Timeliness is another measure that can be compared to other government agencies and the private sector.
- Accuracy—Accuracy, or quality, is another measure regularly used by VBA to determine performance. The criteria for this measure will change in the GPRA environment. Accuracy will focus on the requirements of the law and what is important to the customer. It will focus on the final result and measure the entire process, not each step of the process.
- Unit Cost The unit cost measure will include all costs associated with completion of the benefit or service provided. This includes all support activities, overhead costs, FTE costs, other fixed costs, and capital expenditures.
- Employee Satisfaction/Development—This measure is twofold. Employee satisfaction should be routinely measured at all levels of the organization (regional office, area, and national). Employee satisfaction measures will be compared with other government agencies and the best of the private sector. Employee development measures the employees' progress throughout the VBA organizational unit and measures their attainment of skills that add value to the organization.

#### **Status of Strategic Management**

During FY 1996, and as part of the FY 1998 planning process, VBA completed development of a fully integrated business plan. This business plan integrates all VBA program support activities into a planning and budget document—the FY 1998 budget submission. To that end, all five VBA business lines—Compensation & Pension, Education, Loan Guaranty, Vocational Rehabilitation & Counseling, and Insurance—now have their own business plans complete with goals and

performance measures. Accordingly, VBA is now awaiting closure of the 1995 IG Report No. 5R1-B18-100, Review of the Implementation of VBA's Strategic Plan and Performance Measurements, which recommended, in part, that the Under Secretary for Benefits improve the management of the strategic planning process by ". . . ensuring VBA's strategic plan includes program objectives with specific and quantifiable performance measurements in order to help program managers with their responsibilities to successfully accomplish VBA's goals and objectives." Next year's Accountability Report will be based on the performance measures contained in the FY 1998 VBA Business Plan and Resource Request.

#### **Highlights**

VA regional offices completed approximately 3.9 million claims for compensation, pension, and education (CP&E) benefits during FY 1996 and had 378,474 pending claims as of the close of the fiscal year, 90.5 percent of which were C&P claims and 9.5 percent were education claims. VBA offices also issued guaranties on 320,776 home loans of which 26.9 percent were Interest Rate Reduction Refinancing loans. They also helped 7,395 veterans obtain stable employment in the occupation for which they prepared during a program of vocational rehabilitation, and provided life insurance and related benefits to millions of veterans, servicemembers, and beneficiaries accurately, timely, and courteously.

# Compensation and Pension Program

#### **Policy Objectives**

 Provide monthly payments and ancillary benefits to veterans, as specified by law, in recognition of the potential loss of earning capacity caused by a disability or disabilities incurred in or aggravated during active military service.

- Provide monthly payments, as specified by law, to surviving spouses, dependent children and/or dependent parents in recognition of the economic loss caused by the veteran's death during active military service or, subsequent to discharge from military service, as a result of a service-connected disability.
- Provide monthly payments, as specified by law, to needy wartime veterans who are permanently and totally disabled as a result of a disability or disabilities not related to military service.
- Provide monthly payments, as specified by law, to needy surviving spouses and/or dependent children of deceased wartime veterans.

#### **Program Objectives**

- Provide courteous, responsive, timely, and accurate decisions and service to veterans, their dependents, and their survivors.
- Ensure best value for the taxpayers' dollar.
- Improve the flow of information among VA organizational elements and between VA and other governmental organizations in order to:
  - ✓ Ensure the integrity of veterans programs and any programs related to them, particularly in terms of validating self-reported income and net worth for beneficiaries in needs-based programs; and
  - ✓ Improve service to claimants and beneficiaries.
- Enhance employee development programs in order to ensure that adjudication personnel are provided the necessary technical, developmental, and leadership skills needed to accomplish the objectives listed above.

#### Performance Measures

There are many and varied measures used to assess the progress in achieving program objectives. As part of GPRA, the Compensation and Pension (C&P) Service is currently working to perfect key performance indicators and establish measurement systems to ensure that they will continue to be valuable management tools. C&P will retain a number of the key indicators identified in past budgets (i.e., timeliness and accuracy). Others, such as customer satisfaction, unit cost, and employee satisfaction and development, are currently under development.

#### Claims Processed

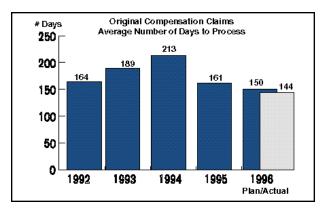
In FY 1996, the C&P program completed nearly 2.7 million claims for benefits, a total 12.7 percent above the number that had been projected. This is largely because of a higher than expected number of income issues.

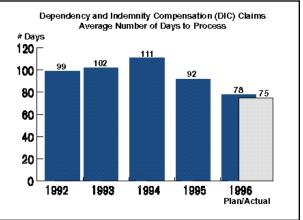
	Workload and Productivity					
	Original	Supplemental	Ancilliary Actions &			
	Claims	Claims	Special Reviews	Productivity		
1992	431,327	1,684,219	669,221	N/A		
1993	443,545	1,673,787	742,201	102.9		
1994	462,404	1,909,795	969,586	98.3		
1995	439,767	1,250,017	744,924	91.6		
1996 Plan	417,689	1,297,902	647,316	N/A		
1996 Actual	401,161	1,481,357	779,483	94.5		

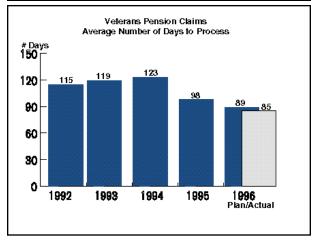
#### Average Number of Days to Process Claims

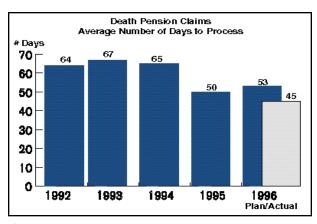
The average number of calendar days to process claims for compensation and pension is one of the key indicators of the effectiveness of VBA's work processes. In FY 1996, C&P reduced the number of claims pending by 11 percent, a decrease that exceeded the planned reduction of 8.5 percent. During this same year, the average number of days to complete each of the four primary types of C&P claims fell below the timeliness targets set prior to the beginning of the year. This represents a continuation of the significant improvement demonstrated during FY 1995. This improvement reflects: improved work

force utilization from increasing decision makers and reducing management and clerical support staff positions; a continuing commitment to training; improved support technology, including enhanced Rating Board Automation (RBA); and the use of help teams and brokering of work between regional offices to address specific workload dislocations. The following charts depict the progress made in this area:









#### **Accuracy**

For quality assurance purposes, VA annually obtains and reviews a random sampling of cases adjudicated by each regional office adjudication division. The benefit decision accuracy rate was 96.2 percent, with a notification accuracy rate of 96.8 percent and service/control accuracy rate of 97.3 percent for FY 1996. All three rates of accuracy were very close to the planned figures for the fiscal year—97.7 percent, 95.2 percent, and 97.3 percent, respectively.

#### National Accuracy Rate

Information on accuracy presented in this submission is based on the Quality Assurance reviews completed during FY 1996, which measure a random sample of all cases but does not differentiate by specific benefit program. Information for the national accuracy rate results from sorting Quality Assurance results by benefit program and redefining some errors into different categories.

Cases r	eviewed		acy Rates—l he period Ja		ar 1996 1996-Decer	nber 31, 1	996
				Ser	vice	Motif	ication
		Payı	ment		Control	NOUI	Ivation
			Accuracy	Control	Accuracy		Accuracy
All Claims	Cases	Errors	Rates	Errors	Rates	Errors	Rates
Compensation	3,559	91	7.4%	86	97.6%	107	97.0%
Pension	895	27	97.0%	16	98.2%	26	97.1%
<b>Death Pension</b>	306	2	99.3%	2	99.3%	2	99.3%
DIC	157	3	98.1%	5	96.8%	4	97.5%
Burial/Accrued	173	3	98.3%	3	98.3%	5	97.1%
Totals	5,090	126	97.5%	112	97.8%	144	97.2%

Cases r	evlewed		acy Rates he period Ja (Contir	anuary 1,		m <b>ber 31,</b> 1	1996
Original		Pavi	ment	Ser	vice Control	Notif	ication
Claims (End Product)	Cases	Errors	Accuracy Rates	Control Errors	Accuracy Rates	Errors	Accuracy Rates
Compensation	878	34	96.1%	31	96.5%	37	95.8%
Pension	79	4	94.9%	6	92.4%	1	98.7%
<b>Death Pension</b>	146	0_	100.0%	2	98.6%	1	99.3%
DIC	31	3	90.3%	5	83.9%	4	87.1%
Totals	1,134	41	96.4%	44	96.1%	43	96.2%

#### **Management Improvement Initiatives**

Some of the initiatives currently ongoing that are contributing to the improving outlook for C&P programs include:

Business Process Reengineering—This initiative includes a complete reassessment of all current C&P business practices. Recommendations will include legislative proposals for program modifications, changed management practices, and a fundamental redesign of basic claims processing procedures. Guiding principles include viewing the claims adjudication process from a customer service perspective and employee empowerment.

After extensive interviews with a wide variety of stakeholders, review of current practices, benchmarking with internal and external partners to discover new and creative best practices, and computer modeling, a business plan was prepared presenting a case manager approach to claims processing to eliminate the multiple handoffs and diffusion of responsibility inherent in the functional specialization of traditional claims processing procedures. An implementation team will provide guidance during the transition phase to case manager team oriented processing. Extensive piloting and testing will be conducted to ensure that best practices are obtained. The first pilot step of testing a

simplified claims application form and telephone interview by a case manager to fully develop a claim is currently being tested at eight regional offices.

- Military Separation Examination Test— This joint DoD/VA initiative is designed to test separation examination alternatives to identify an examination procedure which meets both DoD and VA requirements and facilitate prompt adjudication of claims for members separating from military service. Three regional offices and three separation points are included in the test, each using a different examination approach. The goal of this initiative is to have a fully developed claim package ready for adjudication at or prior to separation from military service.
- COVERS —A PC-based bar code system for control and transfer of claims folders has been deployed to all regional offices. Additional performance enhancements are anticipated as regional office PC inventories are upgraded and hand-held data collection computer units are deployed. This initiative will improve claims folder control and decrease the time required to locate folders.

#### Federal Managers' Financial Integrity Act Issue

During FY 1996, work continued on two material weaknesses impacting the C&P program. The strategy for correcting the material weakness, Aging, Antiquated, Obsolete, and Proprietary Hardware Software Systems, changed when the Secretary of Veterans Affairs announced his decision to defer actions on a complete Modernization Stage III acquisition and to concentrate on replacing the Benefits Delivery Network's payment system. VBA is planning now to replace the current systems with newer equipment that has been excessed by Federal Government agencies. Replacement of equipment is expected to con-

clude during the second quarter of FY 1997. Progress continued on the resolution of the material weakness, Compensation and Pension System - Lack of Adaptability and Documentation, through the development and implementation of VETSNET, a fully documented system which uses modern software engineering methodologies. It will be a fully redesigned approach to financial accounting and will support the agency's Financial Management System. At this time, implementation of the Compensation and Pension VET-SNET application will take place during the third quarter of FY 1999.

#### **Inspector General Audits**

IG Report No. 4R6-B01-055, Timeliness of Benefits Claims Processing Can Be Improved, remains open pending deployment of the automated Claims Processing System (CPS), the date of which has not yet been determined. However, CPS will be deployed to two test sites: VA Regional Offices Baltimore and St. Petersburg by March 1997. Closure of this report also awaits the completion of the Compensation & Pension VETSNET application which, as mentioned above, is scheduled during the third quarter of FY 1999. Final resolution of the IG Report No. 5D2-B01-013, Audit of Appeals Processing Impact on Claims for Veterans' Benefits, awaits issuance of the Veterans' Claims Adjudication Commission's final report to the Congress, as well as legislative action to implement the report's recommendations. IG Report No. 5R6-B01-083, Assessment of Service-Connected Disability Determinations, has now been closed.

# Education Programs Policy Objectives

 To provide vocational readjustment, extend the benefits of a higher education to those who might otherwise not afford such training, and restore lost educational

- opportunities to veterans to assist in their readjustment to civilian life.
- To provide opportunities for education to children whose education would be impeded by reason of death or disability of a parent incurred or aggravated during service in the Armed Forces to aid such children in attaining educational status they might normally have attained but for the disability or death of the parent. These opportunities are extended to spouses and surviving spouses in preparing them to support themselves and their families at a level the veteran could have expected to provide.
- To enhance the nation's competitiveness through a more highly educated and productive workforce.

#### **Program Objectives**

- Issue accurate and timely educational assistance payments.
- Provide accurate, timely, and courteous responses to inquiries.
- Ensure integrity of educational institutions and training programs.

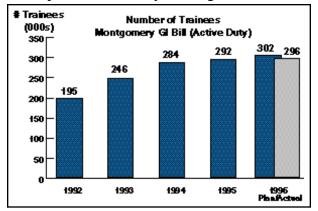
#### Performance Measures

During FY 1995, Education Service developed a business plan to comply with the requirements of the Government Performance and Results Act. The plan resulted from focus groups and discussions with our customers, partners, and other interested stakeholders. In FY 1996, the plan was refined even further and became a part of VBA's first budget submission with a business plan for other major benefits delivery areas. The business plan clearly identifies performance indicators which, when fully implemented, will allow us to determine how successfully we meet our customers' needs and expectations.

#### Claims Processed

VA regional offices processed over 1.2 million

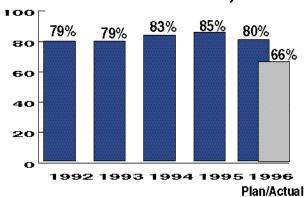
educational benefit claims for almost 440,000 trainees during FY 1996. Two-thirds (296,353) of these eligible persons trained under the Montgomery G.I. Bill-Active Duty program. This represents an increase of less than two percent from last year when 291,958 individuals trained under this program and suggests that the explosive growth in the number of trainees since the early 1990s has ended and a period of stability has begun.



#### **Timeliness**

The monitoring of timeliness in claims processing is used to effectively describe the actual time between the date a claim is received and the date it is finalized. This encourages managers to review organization structure and procedures to identify areas where delays occur and institute changes. The share of original claims processed in 30 days or less increased from 76 percent to 84 percent from FY 1991 to FY 1995. However, FY 1996 did not see that positive trend continue. The delay in resource allocation, brought about by the government shutdown, created backlogs which could not be overcome. Consequently, only 66 percent of all original claims were completed in 30 days or less for the year. However, August and September saw a completion rate in excess of 87 percent, signaling a dramatic reversal of the previous downward trend.

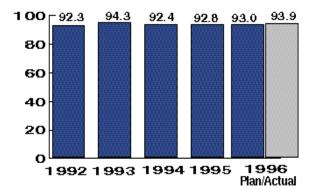
#### Percentage of Education Claims Processed in 30 Days



#### Payment Accuracy

The accuracy of payment is measured by reviewing a statistically valid random sample of completed work units to determine whether proper payment was authorized. Each work unit, or claim, is examined for the existence of a payment error. When the review of all work units is complete, the payment accuracy rate is determined by totaling the number of claims with correct payment and dividing that number by the number of claims reviewed. This generates the payment accuracy rate as a percentage. Despite the difficulties brought about by furloughs, payment accuracy actually improved from 92.8 percent in FY 1995 to 93.9 percent in FY 1996. We had projected an accuracy rate of 93.0 percent.

#### **Payment Accuracy Rate**



**Management Improvement Initiatives**The following initiatives are designed to improve service to veterans:

- Consolidation The consolidation of education claims processing is now complete. By year's end, the last four regional offices had transferred their education claims work to one of the four education claims processing sites: Atlanta, Buffalo, Muskogee, and St. Louis. This VBA reengineering initiative, started in FY 1993, allows work to be accomplished in those four sites with fewer resources than if education claims were still processed in all regional offices.
- VACERT (VA Electronic CERTification) —
   Educational institutions used VACERT in record numbers during FY 1996, continuing the momentum created in FY 1995.
   The number of institutions signing up to use this personal computer program increased from about 1,200 to almost 1,900 during the year because the program was modified for ease of use and a toll-free telephone number was installed late in FY 1995. This computer program allows schools to electronically transmit enrollment data to VA, saving both postal and mail room time and resources.
- VA On-Line In FY 1995, the Buffalo Regional Office began a pilot program to accept education payment inquiries from veterans, schools, and veterans service organizations in New York State through this electronic information system. Using personal computers and modems, customers were able to electronically transmit their inquiries directly to Buffalo and receive a response in the same manner. Early results demonstrated that a need was being met, with over one-half of the inquiries received during non-duty hours. In effect, the Buffalo office could remain "open" to receive inquiries 24 hours a day. During FY 1996, Buffalo began providing access to those living in Ohio and Pennsylvania as well. Muskogee has begun this service to residents of

Oklahoma and Texas. Plans call for steady expansion through FY 1997.

- Education Home Page An Education Home Page was developed and installed on the World Wide Web (address: http://www.va.gov/benefits/education/index.htm), allowing the public to read and download copies of education pamphlets and other current information.
- Electronic Funds Transfer (EFT)—
   FY 1996 saw the installation of Direct Deposit (or EFT) capability for Chapter 30 beneficiaries. With Treasury's cooperation and support, we hope to begin offering this feature to beneficiaries during FY 1997.
- Activity Based Costing (ABC) Model ABC has been identified as a possible cost accounting system throughout VBA. A model was developed and installed during FY 1996 in the St. Louis Regional Office to capture costs attributable to the education business line. It has been in use for six months and there is now sufficient information to conduct a preliminary assessment. To determine the validity and usefulness of such a tool, VBA has contracted with Coopers & Lybrand to perform this review.

#### Federal Managers' Financial Integrity Act Issue

Significant progress was made in FY 1996 in correcting the material weakness, Education System - Chapter 1606 Reserve Educational Assistance Program. Additional funds were re-programmed to develop a new system to replace the eleven-year old interim system. The current design has a limited number of edits and internal controls which result in overpayments, error in payments, delays in payments, and an inordinate reliance on adjudicative staff. The system task order was awarded during the fourth quarter of FY 1996 and implementation of the new system is

expected in the fourth quarter of FY 1997.

#### **Inspector General Audit**

IG Report No. 8R6-B04-004, Audit of Education Benefits and Institutions of Higher Learning, recommended that VBA expand monthly certification requirements to 38 U.S.C. chapter 35 beneficiaries and ensure compliance surveys focus on reviewing school transcripts and degree plans. This recommendation requires major modifications to the information system supporting the chapter 35 program. The changes cannot be accommodated in the current processing environment and must be deferred until the chapter 35 system can be redesigned as part of VBA's modernization program. The priority for modernization is the Compensation & Pension application. It is unlikely that modernization of the chapter 35 system and incorporation of monthly certification can occur before FY 2000.

### Vocational Rehabilitation and Counseling Program

#### **Purpose**

Vocational Rehabilitation and Counseling (VR&C) Service program primarily serves veterans entitled to benefits under 38 U.S.C. chapter 31, but also administers vocational training for certain non service-connected veterans awarded disability pension (38 U.S.C. chapter 15) and educational/vocational counseling to specified classes of beneficiaries (veterans, servicemembers, spouses, widows, and disabled and nondisabled children of disabled veterans) under the following benefit authorities: 38 U.S.C. chapters 30, 32, 35, and 36, and 10 U.S.C. chapters 106 and 107.

The purpose of the chapter 31 benefit program is to provide all necessary services and assistance to enable veterans with service-connected disabilities to achieve maximum independence in daily living, and to the maximum extent feasible, become employable and to

obtain and maintain suitable employment.

#### **Policy Objective**

Provide services and assistance in a courteous, responsive, and timely manner, enabling service-disabled veterans to become employable and obtain and maintain suitable employment.

#### **Program Objectives**

- Increase the number of service-disabled veterans successfully rehabilitated annually.
- Reduce the number of veterans who prematurely terminate their participation in the vocational rehabilitation program.
- Streamline operating procedures to provide greater flexibility to field staff, delegate decision making authority to the lowest point, and eliminate non-value added procedures.
- Track vocational rehabilitation program participants' satisfaction, set improvement targets, and develop techniques for meeting those targets.

#### Program Highlights

During FY 1996, VA counseling psychologists completed 49,581 evaluations for chapter 31 applicants and 990 counseling evaluations under all other benefit authorities. An additional 15,022 evaluations were completed under contract authority. Veterans who successfully completed a program of rehabilitation services increased their annual income by 387 percent over their annual income before entry into VA rehabilitation.

VR&C Workload
Rehabilitation Benefits to Veterans and Taxpayers

		F۱	/ 1996
	FY 1995	. Plan	Actual
Rehabilitated Veterans	6,203	7,167	7,395
Pre-rehab Average Annual Income	\$5,584	\$5,807	\$4,506
Post-rehab Average Annual Income	\$21,870	\$22,745	\$21,952
Gross Income	\$135,000,000	\$163,000,000	\$152,000,000
Payback to taxpayer*	\$28,350,000	\$34,230,000	\$31,920,000

<sup>\*21</sup> percent in Federal/State taxes paid.

#### **Insurance Programs**

#### **Policy Objective**

 Provide insurance services to veterans, servicemembers and beneficiaries accurately, timely and courteously, and deliver services in such a manner as to provide value to them and to taxpayers.

#### **Program Objectives**

- Ensure a high level of customer satisfaction with the delivery of services.
- Ensure financial and program integrity.
- Enhance employee development.
- Ensure efficient and effective operation of the Servicemembers Group Life Insurance (SGLI) and the Veterans Group Life Insurance (VGLI) programs.
- Maintain the lowest possible unit cost for VA-administered Insurance programs, consistent with achieving the other program objectives.

#### Program Highlights

The Insurance program provides life insurance protection for servicemembers and veterans. VA administers seven life insurance programs which provided \$25 billion of coverage to 2.6 million veterans at the end of FY 1996. Of the VA-administered life insurance programs, only the Service-Disabled Veterans Insurance (S-DVI) and Veterans Mortgage Life Insurance (VMLI) programs are still open to new issues. The VA-administered life insurance programs are essentially operated the same as a mutual insurance company which is owned by its policyholders.

Additionally, VA supervises the SGLI and the VGLI programs. For both of these supervised programs, VA has purchased a group life insurance policy from the Prudential Insurance Company of America which then administers the program under a contractual agreement with VA. Together the SGLI and



VGLI programs provided \$536 billion of insurance coverage to approximately 3 million veterans and uniformed servicemembers at the end of FY 1996.

The Insurance programs are unique in that they represent the only VA benefit programs that are predominately funded by contributions (premiums) from veterans. Approximately 98 percent of the total funds required by these programs are funded through policyholder premiums.

#### **Performance Measures**

#### Customer Satisfaction

A customer survey instrument has been designed and is now being utilized to systematically and continually identify customer expectations and changing needs, as well as to assess customer satisfaction with the program. The initial surveys were released in July 1996. The survey response rate has been high (64 percent) and the average score reported by customers has registered between the top two points on the five-point rating scale. In addition, the survey instrument solicits written comments and suggestions from our customers.

Disbursements are considered one of the most important services provided to our customers. Disbursements include death claims payments, policy loans, and cash surrenders.

The percent of calls blocked is the number of individual callers who received a busy signal when dialing the insurance toll-free service divided by the total call attempts. Dramatic improvements in blockage rates were achieved in 1995 and 1996 due to the efforts of initiatives.

Average hold time is the average length of time (in seconds) that a caller waits before becoming connected to an agent. Hold times were also improved in 1995 and 1996 due to initiatives.

					199	96
	1992	1993	1994	1995	Plan	Actual
Disbursement Avg. Days <sup>1</sup>	3.4	3.4	4.4	4.1	4.2	4.2
Disbursement Accuracy	98.9%	99.4%	99.3%	99.1%	98.8%	98.8%
Blocked Call Rate <sup>2</sup>	83.3%	76.8%	64.7%	45.0%	45.0%	36.0%
Average Hold Time	38	57	61	44	34	44

In 1992 and 1993, time spent reviewing disbursements was not included in processing.
 There have been some problems getting reliable management information from our commercial toll-free provider. Therefore, these data are estimates and are subject to change.

#### Audit Opinion

Each year, the audit of VA's Consolidated Financial Statements includes testing of Insurance program financial transactions and accounts, one of the more significant items being the actuarial valuation of insurance reserve liabilities. The audit has not reported any material errors concerning the Insurance program financial accounts or the actuarial valuation of insurance reserve liabilities. This meets our objective in program integrity.

#### Employee Development

Using state-of-the-art techniques and technology, a vendor has been selected to improve and reduce Policyholders Services training time by 50 percent, which currently stands at six months. Their methodology integrates a number of mechanisms which include self-study lessons, computer simulations, alternate classroom strategies and performance support. The computer simulations are hands-on exercises of insurance processes using workstations and a training database.

#### SGLI/VGLI Operations

The SGLI/VGLI programs are administered by the Prudential Insurance Company with VA having oversight responsibilities. VBA will provide the best possible program supervision by ensuring that the administration of the program is efficient and effective and by ensuring financial and program integrity.

The performance objective is for VA to

receive 90 percent of all premiums due from the service departments within the first ten workdays of each month. This will be accomplished by monitoring all SGLI premium receipts and all monthly SGLI coverage reports prepared by the military service branches.

The administrative costs of the SGLI and VGLI programs are measured by the total cost per account per year. The Insurance Service will monitor SGLI's implementation of cost reduction and efficiency improvement recommendations made by the Insurance Service based on their FY 1996 review of operations.

	Premium Receipt Rate	Administrative Costs per Account
1993	N/A	\$26.46
1994	N/A	\$24.72
1995	68%	\$28.06
1996 Plan	N/A	\$25.00
1996 Actual	90%	\$23.68

#### Federal Managers' Financial Integrity Act Issue

The final milestone in the material weakness, Insurance System—Lack of Adaptability and Documentation, was implemented on December 3, 1996. The Insurance System is no longer vulnerable to fragile technology (hardware, choice of languages), as it was prior to FY 1991, or limited by inflexible amounts on master records. Additionally, the system is no longer split across two computer mainframes or impeded by numerous other deficiencies, some of which had been discovered by management review as early as FY 1983.

#### **Inspector General Audits**

In FY 1996, the IG closed the 1995 report, Review of Administration of Servicemen's Group Life Insurance and Veterans' Group Life Insurance Programs (Report No. 5R1-B12-110), based upon actions taken by the Insurance Service. The 1991 Report, Audit of Collections of Accounts Receivable from Insurance Dividends (Report No.

1AD-G07-120), remains open. The resources scheduled to work on this non-Insurance related project in FY 1997 have been reassigned to the Direct Deposit/Electronic Funds Transfer project mandated by the Debt Collection Improvement Act of 1996.

#### **Housing Credit Assistance Program**

#### **Policy Objective**

 Help veterans and active duty personnel purchase and retain homes in recognition of their service to the Nation.

#### **Program Objectives**

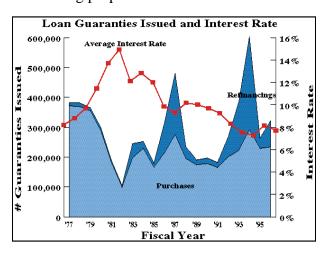
- Assist veterans in obtaining home mortgage loans.
- Assist veterans in avoiding foreclosures.
- Deliver the loan guaranty benefit in the most efficient manner possible.

Assistance is provided through the use of the Government's partial guaranty of loans made by private lenders in lieu of the substantial downpayment and other investment safeguards applicable to conventional mortgage transactions. Lenders set maximum loan amounts based on rules of the secondary market to which they sell their loans. The maximum VA guaranty is currently \$50,750 and lenders are usually willing to make a no downpayment loan of up to four times the guaranty, or \$203,000. Veterans must pay a funding fee ranging from 1.25 percent to 3 percent of the loan amount (0.5 percent for interest rate reduction loans). The funding fee can be included in the loan. Veterans receiving VA compensation are exempt from payment of the fee. Since the program's inception in 1944, VA has guaranteed more than 14.8 million loans totaling over \$515 billion.

#### **Program Highlights**

VA issued guaranties on 320,776 loans in FY 1996, of which 86,412 were Interest Rate Reduction Refinancing (IRRR) loans, a signif-

icant increase from FY 1995. The increase was due to a temporary reduction in interest rates early in calendar year 1996, which resulted in a mini-refinancing wave. The following chart shows how the loan volume is linked to interest rates. The number of guaranties issued is a workload number representing the number issued during the fiscal year. This will be different from the number of loans closed during the fiscal year, which under credit reform is used for budget and accounting purposes.



VA continues to conduct outreach in implementing the Direct Loans for Native American Veterans Pilot Program, which allows VA to make loans directly to Native American Veterans for housing on trust land. VA entered into Memoranda of Understanding (MOU), which are required for VA to begin making loans to group members, with nine more tribes, bringing the total to 44. Twenty more MOU are currently being negotiated. During FY 1996, VA made 54 loans under this program and issued commitments for 28 others. To date, 112 loans have been made to Native American veterans under this pilot program.

During FY 1996, VA provided grants totaling \$14.9 million to 398 severely disabled veterans, mostly wheelchair bound, to buy, build, or modify homes specially adapted for their use. VA assisted these veterans in whatever way necessary to ensure that use of the grant

of up to \$38,000 met their needs. VA also provided smaller housing adaptation grants of up to \$6,500 to disabled veterans who are either blind in both eyes or who have lost, or lost the use of, both hands.

Legislation enacted during 1993 and extended in 1996 provided specific authority to lease and sell acquired properties to organizations working on behalf of homeless veterans. Through the end of FY 1996, 54 properties were sold to homeless providers under the program and another two are being used by a VA medical center for a compensated work therapy program. Leases have been executed for 52 properties.

The subsidy rate shown in the following table represents the net present value of all of the estimated future costs to the government over the potential 30-year life of the loan guaranty. The subsidy cost is closely related to projected foreclosure rates and claim payments. Lower estimates of foreclosure rates have been applied to loans from FY 1995 and earlier but under the Credit Reform law have not yet been applied to the 1996 cohort of loans. The subsidy rate for those loans will likely be close to the rate for the 1995 loans when reestimated using the lower foreclosure rates.

			(	Governmer	t
	Loan	Dollar	IRRRL	Subsidy	Average
	Guaranties	Amount	Guaranties	Rate	Loan
	Issued	(000)	Issued	Per Loan	Amount
1992	266,021	22,959,806	50,129	1.01%	\$86,308
1993	383,303	34,634,878	141,544	1.77%	\$90,359
1994	602,244	55,141,865	289,763	1.16%	\$91,560
1995	263,125	25,340,772	28,266	0.69%	\$96,307
1996 Plan	250,000	24,032,250	26,250	1.56%	\$96,129
1996 Actua	l 320,776	32,610,088	86,418	1.56%	\$101,660

#### Performance Objectives and Measures

As required by GPRA, the following performance objectives and performance measures, supporting the three program objectives, have been identified for the Housing Credit Assistance Program.

#### **Performance Objectives**

- Provide veterans with courteous, responsive, and timely service in obtaining a VA guaranteed loan.
- Maximize lender satisfaction with their dealings with VA employees. This will encourage their participation in the program, expanding financing opportunities for veterans.

#### Service to Veterans

To measure our general success in achieving this objective, a Customer Satisfaction Survey is regularly sent to a random sample of veterans who have recently received a VA guaranteed loan. The survey has been mailed to four percent of the veterans each month since May 1994. About 20 percent of the surveys have been returned, resulting in an error rate of plus or minus three percent. The vast majority are satisfied with the information they receive from VA. The time it takes to process VA home loans is also a critical measure of service to veterans. A relatively small percentage of veterans blame excessive delays in processing loan applications on VA. Unfortunately, some lenders blame delays on VA regardless of who is at fault, and the true extent of delays caused by VA cannot be established.

	1995	1996 Plan	1996 Actual
Percentage of respondents to the			
Loan Guaranty Customer			
Satisfaction Survey who indicate			
they were satisfied or highly			
satisfied with information received			
from VA	93%_	94%	96%
Percentage of veterans who say			
their loan took longer to process			
than expected and were told that			
VA was responsible for delaying			
the process	17.4%	15.0%	15.0%

In FY 1996, VA continued to expand the use of the Lender Appraisal Processing Program (LAPP), which reduces the time necessary to

process and close home loans. Under LAPP, lenders who satisfy VA eligibility criteria can receive appraisal reports directly from VA-assigned appraisers, review those appraisals, and then underwrite and close those loans automatically. In FY 1996, guaranties were issued on 111,298 loans under LAPP authority. This was 47 percent of all VA loans on which guaranties were issued and 52 percent more than were issued under LAPP in FY 1995.

The Veteran Survey has also been revised to measure whether the program is meeting its objective of assisting veterans in purchasing homes. Veterans were asked if they could have purchased their homes without the use of their VA loan guaranty benefit or if they would have only been able to buy less expensive homes without VA assistance. Preliminary results show that only 25 percent of veteran respondents said they would have been able to purchase the same home had they not received a VA loan.

#### Service to Lenders

VA also provides service to lenders who originate veteran home loans. Because lender participation in the program is voluntary, failure to provide quality service could discourage them from participating in the program, making it more difficult for veterans to use their VA home loan benefit. In addition, lenders provide direct service to veterans and depend on VA support to make VA guaranteed loans. VA's failure to fully support lenders would indirectly affect veterans' satisfaction with the program. However, lenders profit from participating in the program and their interests may not always coincide with the interests of veterans and the government. This potential conflict of interests makes it impossible for VA to fully satisfy lenders, and the planned levels are set accordingly.

Service to lenders is measured by lenders' responses to the annual VA Lender Survey.

VA sends surveys annually to about 1,100 lenders who made at least 25 VA guaranteed loans during the previous year. Lenders are asked whether they were highly satisfied, satisfied, somewhat dissatisfied, or not satisfied with VA in specific areas. The indicators are averages of the percentage satisfied or very satisfied on individual questions within a category. On the FY 1996 survey, the response categories were changed from the FY 1995 version to allow lenders to give a neutral response, "neither satisfied nor dissatisfied." However, FY 1996 performance estimates were not changed since it was unclear what impact the change in the survey would have on the measures. Given the change in the survey, performance on questions regarding overall interaction with VA was better than expected. Although lenders now have a neutral category on the survey, almost the same average percentage said they were satisfied or very satisfied on those questions. For questions regarding appraisals and certificates of reasonable value (CRVs), performance on the new survey was as expected. With a neutral category available, the average percentage of respondents satisfied or highly satisfied declined by eight percent.

Average percentage of respondents to the Lender Survey who indicate that they were satisfied on questions regarding their overall interaction with VA 68% 70% 67%  Average percentage of respondents to the Lender Survey who indicate that they were satisfied on very satisfied on questions regarding appraisals and CRVs 75% 64%				
respondents to the Lender Survey who indicate that they were satisfied or very satisfied on questions regarding their overall interaction with VA 68% 70% 67%  Average percentage of respondents to the Lender Survey who indicate that they were satisfied or very satisfied on questions regarding appraisals and		1995	1996 Plan	1996 Actual
Interaction with VA 68% 70% 67%  Average percentage of respondents to the Lender Survey who indicate that they were satisfied on very satisfied on questions regarding appraisals and	respondents to the Lender Survey who indicate that they were satisfied or very satisfied on			
respondents to the Lender Survey who indicate that they were satisfied or very satisfied on questions regarding appraisals and		68%	70%	67%
	respondents to the Lender Survey who indicate that they were satisfied or very satisfied on questions regarding appraisals and	72%	75%	64%

#### Performance Objective

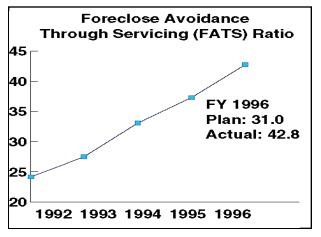
 Increase the relative number of veterans assisted by VA in avoiding foreclosure.

\*On the 1996 survey, the response categories were changed and an

additional response category, "neither satisfied nor dissatisfied," was added

VA measures its success in assisting veterans who are facing foreclosure with the Foreclosure Avoidance Through Servicing (FATS) ratio. This measures the extent to which foreclosures would have been greater had VA not pursued alternatives to foreclosure. The costs to the government are reduced when VA is able to pursue an alternative to foreclosure. Veterans are helped by either saving their home or avoiding the expense and damage to credit rating caused by a foreclosure.

The FATS ratio was expected to decline in FY 1996 due to reductions in FTE. VA was instead able to increase the FATS ratio. The increase was due to a delay in the implementation of staffing reductions, a continued decline in the number of serious loan defaults, and extraordinary efforts by VA employees to continue assisting veterans in avoiding foreclosures.



#### **Performance Objectives**

- Minimize the number of defaults due to underwriting deficiencies.
- Limit the inventory of acquired properties to a six-month "pipeline inventory."

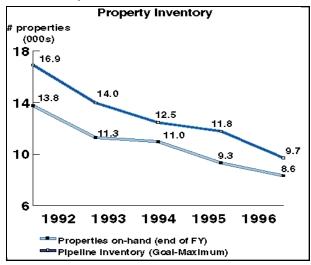
Many things contribute to loan defaults and foreclosures, with underwriting deficiencies being one of the least frequently occurring causes. Most result from things that cannot be predicted when underwriting the loan, such as

unforeseen curtailment of income, divorce, unexpected health or other costs, or overextension by the borrower. The more time that has passed since loan origination, the more likely that the veteran could be affected by one of the unpredictable causes of default discussed. However, if the VA credit standards were flawed, or were applied in a flawed manner, the default rate would be higher than otherwise. In particular, a default within six months of origination is more likely to be related to the underwriting than a later default. Therefore, the percentage of loans that are early defaults can, to a limited extent, be used to measure the quality of underwriting of VA guaranteed loans, because early defaults often occur on loans with underwriting deficiencies. A report will be created to determine that percentage.

Since the measure of early defaults is an imperfect measure of underwriting performance, VA will also measure the percentage of loans found to have substantive underwriting errors. Through a reinvention of loan processing, VA now performs a comprehensive review of about 10 percent of the loans it guarantees. Data on substantive underwriting errors, which are found very infrequently, are kept only at the regional offices. A report will be created to track this information nationally.

VA performance in this area is also measured by the property inventory level. The property inventory is the number of properties acquired by VA but not yet sold. The longer VA holds the property in inventory, the more costs there are to VA in taxes, property maintenance, and foregone interest. On average, it should take six months or less to sell VA-acquired properties, which includes time for eviction, analysis of the property, performing repairs, listing the property for sale, accepting an offer, and closing the sale. The six-month "pipeline inventory" is half of the acquisitions during the preceding 12 months and represents the

maximum number of properties that should be in inventory nationwide.



Other Program Data			% of outstanding guaranteed loans reported to VA	Avg. duration in months from
	Claims paid	Properties disposed		first uncured default to loan termination
1992	33,848	33,110	3.26%	13.0
1993	29,009	30,457	3.17%	13.3
1994	25,341	24,827	3.18%	13.6
1995	24,683	24,686	3.09%	14.6
1996 Plan	35,017	32,290	3.15%	14.5
1996 Actual	21,971	20,047	3.28%	13.7

VA's workload in loan servicing and property management decreased in FY 1996. The number of claims paid has decreased as a result of a decrease in loans outstanding, improved underwriting requirements, and the stable economy. The number of properties disposed has also declined due to decreases in claims paid and properties acquired.

The percentage of outstanding guaranteed loans reported to VA as being in default is a measure of the overall health of the guaranteed loan portfolio. The percentage in default had declined due to lower interest rates, a stable economy, and the large number of loans



made in 1993 and 1994. Those loans are now entering their peak default years, bringing up the overall percentage of loans in default.

### Federal Managers' Financial Integrity Act Issues

During FY 1996, work continued on two material weaknesses impacting the Loan Guaranty program. Loan Guaranty-Loan Service and Claims gained funding by re-programming FY 1996 funds to assist in the development of the new Loan Service and Claims System. This will help in the management of supplemental GI loan servicing. That effort is now scheduled for implementation in FY 1999. The date of resolution of the material weakness, Loan Guaranty Financial Modernization, has yet to be determined due to lack of funding; however, significant activity is occurring in other areas to alleviate the overpayment aspects of this particular weakness. The implementation of the Automated Voucher System, the contracting out of Portfolio Loan servicing, and the upcoming Loan Service & Claims and Property Management Systems all provide checks or otherwise help identify problems in duplicate or erroneous payments.

#### **Inspector General Audits**

Closure of the 1991 IG Report No. 1AM-B10-055, Audit of Veterans Benefits Administration Debt Abatement Reporting Practices, awaits the implementation of the new Loan Service & Claims System which, as mentioned above, is scheduled for FY 1999. In their 1992 report, Audit of Department of Veterans Affairs Property Appraisal Process (Report No. 2R5-B10-132), the IG recommended that VBA, after implementing certain procedures offered elsewhere in the report, monitor a particular report instrument regarding the supervision of fee appraiser activities and strengthen compliance where necessary. Closure of this recommendation and report awaits the compilation and review of data, and a determination made as to whether any further policy changes are necessary. This determination will not occur before March 1997. Resolution of the 1993 IG Report No. 3AM-B10-119, Audit of Department of Veterans Affairs Loan Guaranty Property Acquisition Process, and the 1995 IG Report No. 5AR-B10-124, Audit of VA Loan Guaranty Fee Appraisal System, depend upon the publication and implementation of new regulations which are expected to occur in FY 1997.